

CITY OF GLADBROOK

Independent Auditors' Reports Basic Financial Statements and Supplementary Information Schedule of Findings

June 30, 2008

CITY OF GLADBROOK

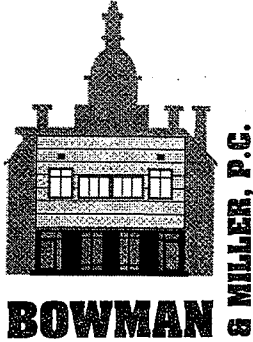
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CITY OF GLADBROOK

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2008)		
Tim Hendricks	Mayor	Jan 2010
Mike Wentzien	Mayor Pro Tem	Jan 2008
Geri Eilers	Council Member	Jan 2008
Roger Luehring	Council Member	Jan 2010
Sam Goos	Council Member	Jan 2010
Patrick White	Council Member	Jan 2010
Lori Bearden	Clerk/Treasurer	Indefinite
John Livingston	Attorney	Indefinite
(After January 2008)		
Tim Hendricks	Mayor	Jan 2010
Roger Luehring	Mayor Pro Tem	Jan 2010
Brad Smoldt	Council Member	Jan 2012
Amanda Gehring	Council Member	Jan 2012
Sam Goos	Council Member	Jan 2010
Patrick White	Council Member	Jan 2010
Lori Bearden	Clerk/Treasurer	Indefinite
John Livingston	Attorney	Indefinite



C E R T I F I E D ♦ P U B L I C ♦ A C C O U N T A N T S

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Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Gladbrook, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Gladbrook's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Gladbrook, as of June 30, 2008, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 25, 2008 on our consideration of the City of Gladbrook's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 19 through 21 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Gladbrook's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2007 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied on our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bowman and Miller, P.C.

Marshalltown, Iowa
August 25, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Gladbrook provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the City's financial statements which follow.

2008 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 79.2%, or approximately \$409,000 from fiscal 2007 to fiscal 2008. Capital grants and contributions increased \$406,599.
- Disbursements increased 94.5%, or approximately \$442,000 in fiscal 2008 from fiscal 2007 in the governmental activities. Public works and capital projects increased approximately \$51,800 and \$375,000, respectively.
- The City's total cash basis net assets increased 2.6%, or approximately \$22,700 from June 30, 2007 to June 30, 2008. Of this amount, the assets of the governmental activities increased approximately \$26,000 and the assets of the business type activities decreased by approximately \$3,300.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases and decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, sanitary sewer system, the City Center movie theater and Matchstick Marvels museum and the Gladbrook Fitness Center. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the water and sewer funds, for the operation of the City's movie theater and Matchstick Marvels museum and for the operation of the Gladbrook Fitness Center. These funds are considered to be major funds of the City.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from \$587,808 to \$613,846. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year ended June 30,	
	2008	2007
Receipts:		
Program receipts:		
Charges for service	\$ 50,850	42,159
Operating grants, contributions and restricted interest	137,600	145,180
Capital grants, contributions and restricted interest	408,219	1,620
General receipts:		
Property tax	243,441	243,648
Local option sales tax	57,996	58,034
Franchise tax	4,385	4,255
Unrestricted interest on investments	16,357	13,873
Other general receipts	<u>6,370</u>	<u>7,535</u>
Total receipts	<u>925,218</u>	<u>516,304</u>
Disbursements:		
Public safety	172,034	165,539
Public works	159,858	108,031
Culture and recreation	51,767	46,052
Community and economic development	23,766	25,718
General government	56,457	51,588
Debt service	70,741	70,819
Capital projects	<u>375,298</u>	<u>-</u>
Total disbursements	<u>909,921</u>	<u>467,747</u>
Change in cash basis net assets before transfers	15,297	48,557
Transfers, net	<u>10,741</u>	<u>(14,667)</u>
Change in cash basis net assets	26,038	33,890
Cash basis net assets beginning of year	<u>587,808</u>	<u>553,918</u>
Cash basis net assets end of year	\$ <u>613,846</u>	<u>587,808</u>

The City's total receipts for governmental activities increased by 79.2% or approximately \$409,000. The total cost of all programs and services increased by approximately \$442,000, or 94.5%, with no new programs added.

The significant increase in receipts was primarily the result of \$126,987 received from the State of Iowa through the CAT grant program and \$237,334 received from the Gladbrook Community Foundation to use for the construction of the new Gladbrook Fitness Center. These amounts are reflected in the capital grants and contributions.

The cost of all governmental activities this year was approximately \$910,000 compared to approximately \$468,000 last year. However, as shown on the Statement of Activities and Net Assets on pages 10-11, the amount taxpayers ultimately financed for these activities was only \$313,252 because some of the cost was paid by those directly benefited from the programs (\$50,850) or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest (\$545,819). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in 2008 from approximately \$189,000 to approximately \$597,000. The City paid the remaining "public benefit" portion of governmental activities with \$301,437 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities			
		Year ended June 30,	
		2008	2007
Receipts:			
Program receipts:			
Charges for service:			
Water	\$	115,797	98,336
Sewer		101,279	96,020
Concessions and admissions		109,968	129,689
Memberships		26,973	-
Operating grants, contributions and restricted interest		6,150	2,564
General receipts:			
Unrestricted interest on investments		<u>3,632</u>	<u>727</u>
Total receipts		<u>363,799</u>	<u>327,336</u>
Disbursements:			
Water		152,295	78,314
Sewer		80,905	67,321
City center		121,090	128,922
Fitness center		<u>2,125</u>	<u>-</u>
Total disbursements		<u>356,415</u>	<u>274,557</u>
Change in cash basis net assets before transfers		7,384	52,779
Transfers in		<u>(10,741)</u>	<u>14,667</u>
Change in cash basis net assets		(3,357)	67,446
Cash basis net assets beginning of year		<u>271,949</u>	<u>204,503</u>
Cash basis net assets end of year	\$	<u>268,592</u>	<u>271,949</u>

Total business type activities receipts for the fiscal year were \$363,799 compared to \$327,336 last year. This increase was due primarily to an increase in water and sewer rates effective July 1, 2007 and memberships received from the Gladbrook Fitness Center. Total disbursements for the fiscal year increased by 29.8% to a total of \$356,415.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Gladbrook completed the year, its governmental funds reported a combined fund balance of \$613,846, an increase of \$26,038 from last year's total of \$587,808. The following are the major reasons for the changes in fund balance of the major funds from the prior year.

- The General Fund cash balance increased \$62,309 from the prior year to \$547,857. Approximately \$40,000 of this increase was due to the receipt of a fire equipment grant to help purchase new fire uniforms and equipment.

- The Road Use Tax Fund cash balance decreased by \$21,771 to \$42,368 during the fiscal year. The decrease was primarily due to increased costs in snow removal and street maintenance.
- The Debt Service Fund cash balance remained approximately the same from 2007. This fund is used to pay off general obligation bonds and notes. In 2008, the City transferred funds from the Local Option Sales Tax Fund and the Tax Increment Financing Fund to pay a portion of the debt.
- The Capital Projects Fund was used to account for the construction of the new Gladbrook Fitness Center.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$34,605 to \$115,666, primarily due to purchase of a new generator and tractor and repairs on the water pump.
- The Sewer Fund cash balance increased by \$23,918 to \$136,248, primarily due to an increase in the sewer rates charged to customers.
- The City Center cash balance decreased by \$6,777 due primarily to a decrease in movie attendance and concession sales.
- The Fitness Center cash balance increased by \$14,107 due primarily to initial memberships received.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended their budget once. The amendment was approved on May 12, 2008 and resulted in an increase in operating disbursements of \$633,717, related to public improvements and the purchase of new equipment. The City received grants and contributions and had sufficient cash balances to absorb the remainder of the costs.

DEBT ADMINISTRATION

At June 30, 2008, the City had \$654,441 in bonds and other long-term debt, compared to \$729,806 last year, as shown below.

Outstanding Debt at Year-End			
		June 30,	
		2008	2007
General obligation notes	\$	331,441	386,806
Revenue notes		<u>323,000</u>	<u>343,000</u>
Total	\$	<u>654,441</u>	<u>729,806</u>

Debt decreased as a result of the annual retirement of the general obligation notes and revenue notes.

The Constitution of the State of Iowa limits the amount of general obligation debt that cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The city's outstanding general obligation debt of \$331,441 is below its constitutional debt limit of \$966,221.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Gladbrook's elected and appointed officials and citizens considered many factors when setting the fiscal year 2009 budget, tax rates, and fees that will be charged for various City activities.

The City is considering a major capital project to replace its' existing water supply tower and for improvements to the water delivery infrastructure for its' municipal customers. The project will be dependent upon receiving a Community Development Block Grant for approximately one half of the funds needed. An application for the Community Development Block Grant is currently being prepared for submission. The balance of the funds needed for the project is expected to come from a combination of available reserves, a state revolving loan and usage rate adjustments.

The operating costs of the Gladbrook Fitness Center will need to be monitored to determine if charges for memberships are adequate.

The increase in fuel costs and the higher than projected expenses for last years snow removal are a concern and have been factored in next years budget. The City's property tax base appears to be stable and may increase which should allow for little or no change to the current property tax levy.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Lori Bearden, City Clerk , at 319 2nd Street, Gladbrook, Iowa 50635.

CITY OF GLADBROOK

Statement of Activities and Net Assets-Cash Basis As of and for the year ended June 30, 2008

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 172,034	44,710	28,355	40,475
Public works	159,858	2,344	93,386	3,423
Culture and recreation	51,767	1,586	15,859	-
Community and economic development	23,766	-	-	-
General government	56,457	2,210	-	-
Debt service	70,741	-	-	-
Capital projects	375,298	-	-	364,321
Total governmental activities	<u>909,921</u>	<u>50,850</u>	<u>137,600</u>	<u>408,219</u>
Business type activities:				
Water	152,295	115,797	-	-
Sewer	80,905	101,279	2,000	-
City center	121,090	109,968	4,150	-
Fitness center	2,125	26,973	-	-
Total business type activities	<u>356,415</u>	<u>354,017</u>	<u>6,150</u>	<u>-</u>
Total	<u>\$ 1,266,336</u>	<u>404,867</u>	<u>143,750</u>	<u>408,219</u>
General receipts:				
Property tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Local option sales tax				
Franchise tax				
Unrestricted interest on investments				
Miscellaneous				
Sale of assets				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Streets				
Debt service				
Other purposes				
Unrestricted				
Total cash basis net assets				

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(58,494)	-	(58,494)
(60,705)	-	(60,705)
(34,322)	-	(34,322)
(23,766)	-	(23,766)
(54,247)	-	(54,247)
(70,741)	-	(70,741)
(10,977)	-	(10,977)
(313,252)	-	(313,252)
-	(36,498)	(36,498)
-	22,374	22,374
-	(6,972)	(6,972)
-	24,848	24,848
-	3,752	3,752
(313,252)	3,752	(309,500)
207,731	-	207,731
19,773	-	19,773
15,937	-	15,937
57,996	-	57,996
4,385	-	4,385
16,357	3,632	19,989
5,695	-	5,695
675	-	675
10,741	(10,741)	-
339,290	(7,109)	332,181
26,038	(3,357)	22,681
587,808	271,949	859,757
\$ 613,846	268,592	882,438
\$ 42,368	-	42,368
-	30,690	30,690
23,621	-	23,621
547,857	237,902	785,759
\$ 613,846	268,592	882,438

CITY OF GLADBROOK
Statement of Cash Receipts, Disbursements and
Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2008

	General	Special Revenue Road Use Tax	Debt Service	Capital Projects Fitness Center	Nonmajor	Total
Receipts:						
Property tax	\$ 183,257	-	15,456	-	18,247	216,960
Tax increment financing	-	-	-	-	19,773	19,773
Other city tax	5,663	-	481	-	58,560	64,704
Intergovernmental	80,563	86,958	-	364,321	1,136	532,978
Licenses and permits	260	-	-	-	-	260
Charges for service	44,710	-	-	-	-	44,710
Use of money and property	15,900	-	-	-	457	16,357
Special assessments	-	3,423	-	-	-	3,423
Miscellaneous	15,030	1,447	-	-	8,901	25,378
Total receipts	345,383	91,828	15,937	364,321	107,074	924,543
Disbursements:						
Operating:						
Public safety	172,034	-	-	-	-	172,034
Public works	18,781	141,077	-	-	-	159,858
Culture and recreation	42,439	-	-	-	9,328	51,767
Community and economic development	23,766	-	-	-	-	23,766
General government	56,457	-	-	-	-	56,457
Debt service	-	-	70,741	-	-	70,741
Capital projects	-	-	-	375,298	-	375,298
Total disbursements	313,477	141,077	70,741	375,298	9,328	909,921
Excess (deficiency) of receipts over (under) disbursements	31,906	(49,249)	(54,804)	(10,977)	97,746	14,622
Other financing sources (uses):						
Sale of capital assets	-	675	-	-	-	675
Operating transfers in	30,403	26,803	54,204	10,977	-	122,387
Operating transfers out	-	-	-	-	(111,646)	(111,646)
Total other financing sources (uses)	30,403	27,478	54,204	10,977	(111,646)	11,416
Net change in cash balances	62,309	(21,771)	(600)	-	(13,900)	26,038
Cash balances beginning of year	485,548	64,139	600	-	37,521	587,808
Cash balances end of year	\$ 547,857	42,368	-	-	23,621	613,846
Cash Basis Fund Balances						
Unreserved:						
General fund	\$ 547,857	-	-	-	-	547,857
Special revenue funds	-	42,368	-	-	23,621	65,989
Total cash basis fund balances	\$ 547,857	42,368	-	-	23,621	613,846

CITY OF GLADBROOK
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2008

	Water	Sewer	City Center	Fitness Center	Total
Operating receipts:					
Charges for service	\$ 115,797	101,279	109,968	26,973	354,017
Total operating receipts	115,797	101,279	109,968	26,973	354,017
Operating disbursements:					
Business type activities	152,295	50,615	121,090	2,125	326,125
Total operating disbursements	152,295	50,615	121,090	2,125	326,125
Excess (deficiency) of operating receipts over (under) operating disbursements	(36,498)	50,664	(11,122)	24,848	27,892
Non-operating receipts (disbursements):					
Interest on investments	1,893	1,544	195	-	3,632
Land rent	-	2,000	-	-	2,000
Contributions	-	-	4,150	-	4,150
Debt service	-	(30,290)	-	-	(30,290)
Net non-operating receipts (disbursements)	1,893	(26,746)	4,345	-	(20,508)
Excess (deficiency) of receipts over (under) disbursements	(34,605)	23,918	(6,777)	24,848	7,384
Other financing uses:					
Operating transfers out	-	-	-	(10,741)	(10,741)
Net change in cash balances	(34,605)	23,918	(6,777)	14,107	(3,357)
Cash balances beginning of year	150,271	112,330	9,348	-	271,949
Cash balances end of year	\$ 115,666	136,248	2,571	14,107	268,592
Cash Basis Fund Balances					
Reserved for debt service	\$ -	30,690	-	-	30,690
Unreserved	115,666	105,558	2,571	14,107	237,902
Total cash basis fund balances	\$ 115,666	136,248	2,571	14,107	268,592

CITY OF GLADBROOK

Notes to Financial Statements

June 30, 2008

Note 1 – Summary of Significant Accounting Policies

The City of Gladbrook is a political subdivision of the State of Iowa located in Tama County. It was first incorporated in 1880 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Gladbrook has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City of Gladbrook has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Tama County Assessor's Conference Board, Tama County Emergency Management Commission, Tama County Solid Waste Disposal Commission, Tama County Joint E911 Service Board, Region Six Planning Commission and Tama County Economic Development Board.

B. Basis of Presentation

Government-wide Financial Statement – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

CITY OF GLADBROOK
Notes to Financial Statements (Continued)
June 30, 2008

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

The Water and Sewer Funds account for the operation and maintenance of the City's water and sewer systems.

The City Center accounts for the operation and maintenance of the City's movie theater and Matchstick Marvels museum.

The Fitness Center accounts for the operation and maintenance of the Gladbrook Fitness Center.

CITY OF GLADBROOK
Notes to Financial Statements (Continued)
June 30, 2008

Note 1 – Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

The City of Gladbrook maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

Note 2 – Cash and Pooled Investments

The City's deposits in banks at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

CITY OF GLADBROOK

Notes to Financial Statements (Continued)

June 30, 2008

Note 3 – Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 3.90% of their annual covered salary and the City is required to contribute 6.05% of covered salary. Certain employees in special risk occupations and the city contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contributions to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$7,251, \$6,660 and \$5,770, respectively, equal to the required contributions for each year.

Note 4 – Notes Payable

Annual debt service requirements to maturity for general obligation notes and a sewer revenue capital loan note are as follows:

Year Ending June 30,	General Obligation Notes		Sewer Revenue Capital Loan Note		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 57,748	12,921	21,000	9,690	78,748	22,611
2010	59,989	10,455	21,000	9,060	80,989	19,515
2011	62,204	7,736	22,000	8,430	84,204	16,166
2012	48,500	5,510	23,000	7,770	71,500	13,280
2013	50,500	3,575	23,000	7,080	73,500	10,655
2014	52,500	1,560	24,000	6,390	76,500	7,950
2015	-	-	25,000	5,670	25,000	5,670
2016	-	-	25,000	4,920	25,000	4,920
2017	-	-	26,000	4,170	26,000	4,170
2018	-	-	27,000	3,390	27,000	3,390
2019	-	-	28,000	2,580	28,000	2,580
2020	-	-	29,000	1,740	29,000	1,740
2021	-	-	29,000	870	29,000	870
Total	\$ 331,441	41,757	323,000	71,760	654,441	113,517

The sewer revenue capital loan note was issued for the purpose of defraying a portion of the costs of carrying out a sewer project of the City. The resolution providing for the issuance of the revenue note included the following provisions: (a) the note will only be redeemed from the future earnings of the enterprise activity fund and the note holders hold a lien on the future earnings of the fund, and (b) sufficient monthly transfers shall be made to a separate sewer revenue note sinking account for the purpose of making the note principal and interest payments when due.

CITY OF GLADBROOK

Notes to Financial Statements (Continued)

June 30, 2008

Note 5 – Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payments payable to employees at June 30, 2008 was \$1,716, primarily relating to the General Fund. This liability has been computed based on rates of pay in effect at June 30, 2008.

Note 6 – Risk Management

The City of Gladbrook is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 7 – Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Special Revenue:	
	Local Option Sales Tax	\$ 34,431
	Urban Renewal Tax Increment	<u>19,773</u>
		54,204
General	Special Revenue:	
	Local Option Sales Tax	19,332
	Employee Benefits	5,862
	Emergency Services	<u>5,209</u>
		30,403
Special Revenue:	Special Revenue:	
Road Use Tax	Employee Benefits	4,653
	Local Option Sales Tax	4,233
	Capital Projects:	
	Main Street Project	<u>17,917</u>
		26,803
Capital Projects:	Proprietary Fund:	
Fitness Center	Fitness Center	10,741
	Capital Projects:	
	Main Street Project	<u>236</u>
		<u>10,977</u>
Total		<u>\$122,387</u>

CITY OF GLADBROOK

Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances-Budget and Actual (Cash Basis)

All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2008

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 216,960	-
Tax increment financing	19,773	-
Other city tax	64,704	-
Intergovernmental	532,978	-
Licenses and permits	260	-
Charges for service	44,710	354,017
Use of money and property	16,357	5,632
Special assessments	3,423	-
Miscellaneous	25,378	4,150
Total receipts	<u>924,543</u>	<u>363,799</u>
Disbursements:		
Public safety	172,034	-
Public works	159,858	-
Culture and recreation	51,767	-
Community and economic development	23,766	-
General government	56,457	-
Debt service	70,741	-
Capital projects	375,298	-
Business type activities	-	356,415
Total disbursements	<u>909,921</u>	<u>356,415</u>
Excess (deficiency) of receipts over (under) disbursements	14,622	7,384
Other financing sources, net	<u>11,416</u>	<u>(10,741)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	26,038	(3,357)
Balances beginning of year	<u>587,808</u>	<u>271,949</u>
Balances end of year	<u>\$ 613,846</u>	<u>268,592</u>

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
216,960	217,890	217,890	(930)
19,773	18,500	18,500	1,273
64,704	60,447	60,447	4,257
532,978	123,800	564,275	(31,297)
260	6,075	6,075	(5,815)
398,727	393,470	408,818	(10,091)
21,989	2,800	2,800	19,189
3,423	-	2,367	1,056
29,528	8,150	16,821	12,707
1,288,342	831,132	1,297,993	(9,651)
172,034	138,178	238,328	(66,294)
159,858	125,333	171,192	(11,334)
51,767	48,887	54,637	(2,870)
23,766	27,500	27,500	(3,734)
56,457	53,518	60,476	(4,019)
70,741	70,812	70,812	(71)
375,298	-	400,000	(24,702)
356,415	339,620	414,620	(58,205)
1,266,336	803,848	1,437,565	(171,229)
22,006	27,284	(139,572)	161,578
675	-	-	675
22,681	27,284	(139,572)	162,253
859,757	723,338	723,338	136,419
882,438	750,622	583,766	298,672

CITY OF GLADBROOK

Notes to Required Supplementary Information – Budgetary Reporting June 30, 2008

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$633,717. The budget amendment is reflected in the final budgeted amount.

Other Supplementary Information

CITY OF GLADBROOK
Statement of Cash Receipts, Disbursements and
Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2008

	Special			
	Urban	Local	Employee	Emergency
	Renewal Tax	Option	Benefits	Services
	Increment	Sales Tax		
Receipts:				
Property tax	\$ -	-	13,194	5,053
Tax increment financing	19,773	-	-	-
Other city tax	-	57,996	408	156
Intergovernmental	-	-	-	-
Use of money and property	-	-	-	-
Miscellaneous	-	-	-	-
Total receipts	19,773	57,996	13,602	5,209
Disbursements:				
Operating:				
Culture and recreation	-	-	-	-
Total disbursements	-	-	-	-
Excess (deficiency) of receipts over (under) disbursements	19,773	57,996	13,602	5,209
Other financing uses:				
Operating transfers out	(19,773)	(57,996)	(10,515)	(5,209)
Net change in cash balances	-	-	3,087	-
Cash balances beginning of year	-	-	582	-
Cash balances end of year	\$ -	-	3,669	-
Cash Basis Fund Balances				
Unreserved:				
Special revenue funds	\$ -	-	3,669	-
Total cash basis fund balances	\$ -	-	3,669	-

Revenue				Capital Projects	
Library	Museum	Recreational Trust	Main Street Project		Total
-	-	-	-	-	18,247
-	-	-	-	-	19,773
-	-	-	-	-	58,560
1,136	-	-	-	-	1,136
457	-	-	-	-	457
4,058	143	4,700	-	-	8,901
5,651	143	4,700	-	-	107,074
3,123	143	6,062	-	-	9,328
3,123	143	6,062	-	-	9,328
2,528	-	(1,362)	-	-	97,746
-	-	-	(18,153)	(111,646)	
2,528	-	(1,362)	(18,153)	(13,900)	
12,250	2,064	4,472	18,153	37,521	
14,778	2,064	3,110	-	23,621	
14,778	2,064	3,110	-	23,621	
14,778	2,064	3,110	-	23,621	

CITY OF GLADBROOK

Schedule of Indebtedness

Year ended June 30, 2008

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Storm sewer improvement	Mar 15, 2001	5.25%	\$ 128,000
Corporate purpose	Aug 1, 2004	3.95%	413,643
Total			
Sewer revenue capital loan note:			
Sewer improvement	Sept 15, 2001	3.00%	\$ 706,000

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
59,806	-	13,865	45,941	2,935	-
327,000	-	41,500	285,500	12,441	-
386,806	-	55,365	331,441	15,376	-
343,000	-	20,000	323,000	10,290	-

CITY OF GLADBROOK

Bond and Note Maturities

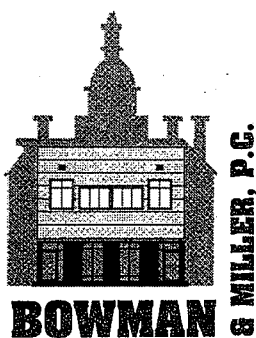
June 30, 2008

General Obligation Notes				
Year Ending June 30,	Storm Sewer Improvement		Corporate Purpose	
	Issued Mar 15, 2001		Issued August 1, 2004	
	Interest Rates	Amount	Interest Rates	Amount
2009	5.25%	14,748	3.95%	43,000
2010	5.25%	15,489	3.95%	44,500
2011	5.25%	15,704	3.95%	46,500
2012		-	3.95%	48,500
2013		-	3.95%	50,500
2014		-	3.95%	52,500
Total		\$ 45,941		285,500

Sewer Revenue Capital Loan Note			
Sewer Improvement			
Year Ending June 30,	Issued Sept 15, 2001		
	Interest Rates	Amount	Total
2009	3.00%	21,000	78,748
2010	3.00%	21,000	80,989
2011	3.00%	22,000	84,204
2012	3.00%	23,000	71,500
2013	3.00%	23,000	73,500
2014	3.00%	24,000	76,500
2015	3.00%	25,000	25,000
2016	3.00%	25,000	25,000
2017	3.00%	26,000	26,000
2018	3.00%	27,000	27,000
2019	3.00%	28,000	28,000
2020	3.00%	29,000	29,000
2021	3.00%	29,000	29,000
Total		\$ 323,000	654,441

CITY OF GLADBROOK
Schedule of Receipts By Source and Disbursements by Function-
All Governmental Funds
For the Last Four Years

	<u>Years ended June 30,</u>			
	2008	2007	2006	2005
Receipts:				
Property tax	\$ 216,960	212,379	194,340	192,653
Tax increment financing	19,773	24,578	23,773	42,104
Other city tax	64,704	64,725	52,884	43,307
Intergovernmental	532,978	145,859	125,569	126,178
Licenses and permits	260	410	758	893
Charges for service	44,710	38,486	36,477	23,166
Use of money and property	16,357	13,873	11,503	6,957
Special assessments	3,423	1,620	-	15,127
Miscellaneous	25,378	14,375	13,784	26,523
Total	<u>\$ 924,543</u>	<u>516,305</u>	<u>459,088</u>	<u>476,908</u>
Disbursements:				
Operating:				
Public safety	\$ 172,034	165,539	109,181	88,359
Public works	159,858	108,031	97,212	99,973
Culture and recreation	51,767	46,052	41,642	56,019
Community and economic development	23,766	25,718	14,379	20,572
General government	56,457	51,588	51,783	56,019
Debt service	70,741	70,819	70,909	87,020
Capital projects	375,298	-	-	24,251
Total	<u>\$ 909,921</u>	<u>467,747</u>	<u>385,106</u>	<u>432,213</u>



C E R T I F I E D ♦ P U B L I C ♦ A C C O U N T A N T S

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Independent Auditors' Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Gladbrook, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated August 25, 2008. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Gladbrook's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Gladbrook's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Gladbrook's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be a significant deficiency, including a deficiency we consider to be a material weakness.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies, that adversely affects the City of Gladbrook's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Gladbrook's financial statements that is more than inconsequential will not be prevented or detected by the City of Gladbrook's internal control. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Gladbrook's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item II-A-08 is a material weakness.

Compliance and Other Matters

As a part of obtaining reasonable assurance about whether the City of Gladbrook's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the City's operation for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Gladbrook's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Gladbrook's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Gladbrook and other parties to whom the City of Gladbrook may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Gladbrook during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Bowman and Miller, P.C.

Marshalltown, Iowa
August 25, 2008

CITY OF GLADBROOK

Schedule of Findings

Year ended June 30, 2008

Part I: Summary of the Independent Auditors' Results:

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.
- (b) A significant deficiency in internal control over financial reporting was disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

CITY OF GLADBROOK

Schedule of Findings

Year ended June 30, 2008

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

II-A-08 Segregation of Duties – One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted one person has control over each of the following areas:

- (1) Cash receipts - collecting, depositing, journalizing, and posting.
- (2) Disbursements - check writing, signing, and reconciling.
- (3) Payroll preparation and distribution.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances. In instances where it is not possible to segregate duties, the City should utilize administrative personnel to provide additional internal control through review of financial transactions and reports.

Response – The noted areas will be reviewed to identify duties that could be handled by other personnel or council members.

Conclusion – Response accepted.

CITY OF GLADBROOK

Schedule of Findings Year ended June 30, 2008

Part III: Other Findings Related to Required Statutory Reporting:

III-A-08 Certified Budget – Disbursements during the year ended June 30, 2008, did not exceed the amounts budgeted.

III-B-08 Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 24, 1979.

III-C-08 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-D-08 Business Transactions – No business transactions between the City and City officials or employees were noted.

III-E-08 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-F-08 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

Agendas were not posted and minutes were not maintained for the City Center/Theater Board meetings.

Recommendation – Agendas should be posted and minutes documenting action taken should be maintained for all boards and commissions established by the City Council.

Response – Boards and commissions established by the City Council will be notified to post agendas and maintain minutes for future meetings.

Conclusion – Response accepted.

III-G-08 Deposits and Investments – We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

III-H-08 Revenue Notes – The City was in compliance with all applicable revenue note provisions.

CITY OF GLADBROOK

Staff

This audit was performed by:

Bowman and Miller, P.C.
Certified Public Accountants
Marshalltown, IA 50158

Personnel:

Elizabeth A. Miller, C.P.A.
Diana Swanson